

TennCare Policy Manual	Section: Payment Issues
Policy No: PAY 08-001 (Rev. 3)	Date: May 24, 2023

Addressing Issues Affecting the Actuarial Soundness of TennCare Rates

Purpose

The purpose of this policy is to describe the policy and procedure by which TennCare makes adjustments to the capitation rates paid to the Managed Care Contractors (MCCs) for member care, when the actuarial soundness upon which the rates are based is called into question by unexpected or unforeseeable changes in the health care arena.

Policy

It is the Division of TennCare's policy to assure that all payment rates established under risk contracts and all risk-sharing mechanisms in contracts are actuarially sound (42 CFR § 438.4). It is the responsibility of the MCCs to responsibly manage the costs of providing healthcare to their members in accordance with their contracts with the state.

The success of the managed care model depends upon a number of factors, one of which is the use of actuarially sound rates. The state contracts with an independent actuarial firm for purposes of rate development. The actuarial firm collects and analyzes historical data on the cost and utilization of services and, using certain assumptions, develops models to predict the future costs and utilization of these services. The data from this analysis is used in establishing the rates for a particular contract period.

If the actuaries' review of the cost and utilization data for a particular period demonstrates an unexpected or unforeseeable change of a significant magnitude that may affect the actuarial soundness of a rate, the actuaries may recommend to the state an appropriate adjustment be made.

Section 1: Procedure

In the event that the Division of TennCare or the state's third-party actuary becomes aware of an unexpected change in medical costs of a magnitude great enough to potentially affect the actuarial soundness of the rates underlying the TennCare managed care plan, the following steps will be implemented:

- 1.1** TennCare, at its sole discretion, may decide that an evaluation of the soundness of the rates needs to be conducted.
- 1.2** TennCare, specifically the agency's Chief Financial Officer and the Chief of Managed Care Operations, in consultation with its third-party actuaries and the MCCs, will gather all relevant data that aids in understanding the change that has occurred or is occurring in medical cost.
- 1.3** After the initial consultations, TennCare may, at its sole discretion, determine that the soundness of the capitation rates is in question. Having made this determination, the Chief Financial Officer

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will request that the third-party actuary reexamine the rate structure in light of the most recent information on the change in medical cost.

- 1.4 Upon determining that the existing rates are no longer actuarially sound, the third-party actuary will notify TennCare. The third-party actuary will prepare the appropriate rates or adjustments, which may then be certified to TennCare as actuarially sound.
- 1.5 After new rates have been established, TennCare at its sole discretion (and after further consultation with the MCCs if necessary) will determine whether any adjustments to payments need to be made, pursuant to Sections C.3.4.5 and C.3.4.6 of the Contractor Risk Agreement. Such adjustments to payments may be made in whichever fashion is deemed appropriate by TennCare and agreed upon by the third-party actuary, including but not limited to a prospective adjustment in rates or a retrospective adjustment to payments made under the previous rate structure.

Section 2: Definitions

- 2.1 **Actuarial Soundness:** An actuarially sound rate is a rate that has been developed in accordance with generally accepted actuarial principles and practices; is applicable for the population served by TennCare; is applicable for the services provided by TennCare; and has been certified to be sound by an actuary who is certified by the American Academy of Actuaries.
- 2.2 **Capitation Rate:** A payment rate payable to an MCC, per member, for the services offered by TennCare. These rates are usually set by "cells," which are classifications of enrollees by sex, age, and other factors, and are paid by TennCare on a monthly basis.

Office of Primary Responsibility

Fiscal Office

Other Responsible Parties

Managed Care Operations
The State's Third-Party Actuary

References

42 CFR § 438.4

https://www.ecfr.gov/cgi-bin/text-idx?SID=a1adc60bba54641307ef69c18c4d37b7&mc=true&node=se42.4.438_14&rgn=div8

Contractor Risk Agreements, Sections C.3.4.5 & C.3.4.6

<https://www.tn.gov/content/dam/tn/tenncare/documents/MCOStatewideContract.pdf>

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